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DEPT FOR EAP/MTS AND EB/ESC/IEC/ENR
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SUBJECT: INDONESIA ELECTRICITY AND GEOTHERMAL HIGHLIGHTS - NOVEMBER 2008

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¶1. Summary. Growth of the Indonesian electricity sector has been insufficient to keep up with GDP growth and requires significant additional investment. The government plans for independent power producers to contribute to future growth, but Indonesia must provide additional financial guarantees to attract sufficient business interest. The 10,000 MW Fast Track program is proceeding, but Indonesian financing has been difficult. There have been four new geothermal tenders this year, the first group under Indonesia's new Geothermal Law. End Summary.

Electricity Sector Growth and IPPs

¶2. According to the Director of Program Supervision at Directorate General of Electricity Emmy Perdanahari, during 2005-2008 GDP growth was about 6.2% annually, electricity demand increased 7% per year, but electricity generating capacity increased only 3.5% per year. According to PLN data, as of 2007 PLN's installed capacity was 29,705 MW, in which 22,302 MW was in the Java-Bali grid. PLN predicts that by 2018, there will be up to 31 million additional customers. To meet the new demand, the Indonesian electricity sector will need about \$68.3 billion in new investment during that time -- \$31.4 billion for generation, \$24.5 billion for transmission, and \$12.4 billion for distribution. PLN estimates it needs 57,000 MW of additional capacity over 10 years, and they expect independent power producers (IPP) to add about 22,000 MW, with the remainder to come from PLN-owned plants.

¶3. Indonesia currently has 16 IPPs with 4,194 MW of generating capacity, 10 in Java-Bali and 6 in other regions. As of October 2008, additional IPP projects were in the following stages, although many of the projects may not go forward as planned:

- Construction: 11 Projects, 880 MW (Java-Bali 2; Other 9);
- Financing: 37 Projects, 3,187 MW (Java-Bali 6; Other 31);
- PPA Finalization: 14 projects, 3,040 MW (Java-Bali 4, Other 10);
- and
- Evaluation and Bidding: 53 projects, 14,515 MW (Java-Bali 17, Other 36).

¶4. Indonesia has had trouble attracting sufficient IPP interest to meet its electricity generation goals, and industry observers have indicated that in many cases PLN's Power Purchase Agreements (PPA) were not sufficient guarantees for IPP financing, as they do not carry the explicit backing of the Indonesian government. On

November 27, Minister of Energy and Mineral Resources (MEMR) Purnomo Yusgiantoro sought to address this problem by stating that the government will provide a financial guarantee, which would amount to 2.5%-5% of the total value of a project, to be used by IPPs in applying for bank loans. The ministry has pooled funds amounting to \$600 million for the so-called Indonesia Infrastructure Fund (IIF), which would benefit the development of power projects.

10,000 MW Fast Track

15. PLN's primary electricity generation expansion program remains the 10,000 MW Fast Track program. Fast Track Phase I has a total capacity of 9,549 MW planned for development in 35 projects in Java-Bali (7,430 MW), Sumatera (1,245 MW), Kalimantan (415 MW), Sulawesi (239 MW), and other islands (240 MW). Chinese companies are the primary construction contractors on all but a few of the 35 projects, which will be owned and operated by PLN. To date, 8 out of 10 projects inside Java-Bali and 6 out of 25 projects outside Java-Bali have started with more than 10% progress. The government projects the completion date of ongoing projects will be around midyear 2010, with finance support from some foreign banks coordinated by PLN and the Finance Ministry. Some industry observers dispute the target date, noting that completion rates offered by PLN reflect civil engineering only. No plants have yet received boilers or other operational equipment.

16. Although much of the financing for the 10,000 MW Fast Track Phase I program is done through concessionary loans from the Chinese government, Indonesia must come up with a portion. Press reports indicated that Indonesia would seek two sources of financing: an international bond sale for about \$1 billion, and a domestic portion, originally expected to be about Rp 3 trillion (\$273

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million). The government has not yet sought international financing, but the domestic issuance has recently been scaled back to Rp 1.5 trillion, Rp 500 billion of which they hope to raise through sharia banking sources.

17. Four coal suppliers for the new plants have been identified through public tender: PT Baramutiara Prima, PT Titan Mining Energy, a consortium of PT Senamas Energindo Mulia and PT Kasih Industri Indonesia, and PT Arutmin Indonesia with PT Darma Henwa. Those four companies shall supply ten power plants in Java-Bali with 18,691 million ton of coal per year, to produce 6,900 MW of electricity. The first coal delivery is scheduled for the second quarter of 2009.

Geothermal Progress 2008

18. Indonesia has 40% of the world's geothermal resources, with total potential resources of 27,510 MW. As of 2008 installed capacity was only 1,042 MW, of which 1,000 MW is located in Java, 40 MW in Sulawesi, and 2 MW in Sumatera. On October 21, President of the Indonesian Geothermal Association Surya Darma said that the Indonesian government has an ambitious target to install up to 9,500 MW of geothermal generating capacity by 2025. Four geothermal tenders have been awarded in 2008, the first projects under the 2003 Geothermal Law, as follows:

- Cisolok (W Java), 45 MW - Indonesia Power, August 2008;
- Tangkuban Pahu (W Java), 220MW - Indonesia Power (in partnership with U.S. company Raser Technologies, Inc.), August 2008;
- Tampomas (W Java), 50MW - Wijaya Karya, August 2008; and
- Jailolo (N Maluku), 75 MW - Star Energy, December 2008.

HUME